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SIPDIS

SENSITIVE
SIPDIS
BRIDGETOWN FOR BARBADOS AND GRENADA

E.O. 12958: N/A
TAGS: ECON ETRD WTRO
SUBJECT: DEMARCHE REQUEST ON WTO DOHA INDUSTRIAL GOODS
TARIFF NEGOTIATIONS

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

¶1. (U) This is an action request. Please see paragraph 8.

¶2. (U) Summary and action request: WTO Doha Round negotiations on potential approaches for global reductions on industrial goods tariffs (known as Non-Agricultural Market Access or NAMA) resumed in Geneva September 17 with informal meetings taking place the week of September 10. Action addressee host countries make up part of a group of developing countries within the WTO negotiations known as small, vulnerable economies (SVEs), which are defined in the NAMA negotiations as countries with less than .01 percent of global non-agricultural goods trade. Within the NAMA negotiations, these countries would be granted a specially-tailored solution, yet to be finalized, commensurate with their SVE status. Small, vulnerable economies are defined separately in the WTO Agriculture negotiations and will be granted a special solution in that context, as well. Posts are requested to demarche host country trade ministries at the highest appropriate level to convey U.S. views on the specific commitments host countries are being asked to undertake in the NAMA negotiations only and to encourage them to pursue an ambitious result for the Round. End summary and action request.

¶3. (U) Background: After the G4 (Brazil, the European Communities, India and the United States) did not reach agreement on the basic outlines of a Doha package in June 2007, negotiations returned back to a WTO Members-led process in Geneva. In mid-July, the chairmen of the agriculture and NAMA negotiating groups issued papers detailing their proposals for a potential framework for modalities. (The NAMA paper is available at www.wto.org, under recent documents, JOB(07)/126.) In subsequent meetings on the NAMA Chair's paper in late July, most WTO Members supported the paper as a starting point from which to build further when negotiations resume in September, but several Members (Argentina, Bolivia, South Africa and Venezuela) came close to rejecting the text, mainly because of the requirements

that it would impose on developing countries, including the small, vulnerable economies. However, in the paper, the Chairman proposed a special solution for the countries meeting the SVE definition. In the Americas/Caribbean region, these countries include: Antigua and Barbuda, Barbados, Belize, Bolivia, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Panama, Paraguay, St. Vincent and Grenadines, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago and Uruguay.

¶4. (U) In the NAMA negotiations approximately 30 developing countries globally will apply the tariff cutting "Swiss" formula through the use of a developing country coefficient. (Note: Under the Swiss formula, the "coefficient" becomes the highest bound tariff. For example, under a "Swiss 19," no bound tariff after full implementation of tariff reduction commitments would be higher than 19 percent. End note.)

¶5. (SBU) Under the Chairman's proposal, the small, vulnerable economies would be exempt from undertaking the much larger commitment -- applying the developing country tariff reduction formula (the so-called Swiss formula above) -- which would require much deeper cuts to their tariffs. U.S. interests in these markets are limited, especially in the Latin American and Caribbean regions where much of our trade is covered by free trade agreements (FTAs). Therefore, the United States has been supportive of special treatment for SVEs in the hopes that: (1) the SVEs' defensive concerns would be addressed; (2) that the SVEs could then focus on their own offensive interests, and (3) that the SVEs, as a result, could support ambitious tariff cuts (through a low formula coefficient) for other, more advanced developing countries, such as Argentina, Brazil, Chile, Colombia and Venezuela.

¶6. (SBU) The specific solution proposed by the NAMA chairman for the small, vulnerable economies is to reduce their bound tariffs to one of three target averages (14, 18 or 22 percent), based on the level of their current average bound tariff rates (the outer boundary of where they could legally raise their tariffs to). The Chair's SVE proposal also contains other elements, such as a requirement that 95 percent of bound tariff lines must be subject to at least a 10 percent tariff cut. The SVEs themselves had been the proponents of a three-band type solution with targeted averages to account for the vast differences among their economies (some being quite wealthy as a result of services - mainly tourism - income). However, many of them are likely to complain that the 14, 18 and 22 target averages are too low and burdensome for their economies and that the 10 percent cut will present difficulties. In reality, the vast majority of them will not make cuts to the tariffs that they actively apply (i.e., their applied tariffs), just to their bound tariffs. Panama and Ecuador are slight exceptions to this -- according to USG calculations the SVE proposal will cut into their applied rates on seven and four percent of their non-agricultural tariff lines respectively. The countries that will end up making large reductions to their bound tariffs under the proposal are the Caribbean countries. This is because they currently have very high starting points, with tariffs bound in the 50 to 70 percent bound range, and would have to bring these tariffs to an average of 22 percent. However, because these countries' applied tariffs are much lower than their bound tariffs, even the Caribbean countries do not have to make any changes to applied tariff rates.

¶7. (U) The new average bound tariffs that will be required for individual SVE countries in the Americas is as follows: 22 percent: Barbados, Belize, Guyana, Trinidad/Tobago; 18 percent: Bolivia, the Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Paraguay and Uruguay; and 14 percent: Ecuador and Panama. End background.

¶8. (U) Action Request: Post is requested to meet at the highest practical level in trade ministries to convey the talking points below. Some Geneva-based representatives of

the SVEs argue that the solutions in the text are too onerous for their countries. In July, some of the SVEs did not have the chance to do in-depth analysis to see what the proposal would actually mean for all of their tariff lines and may have spent the August break at the WTO doing this analysis or consulting further at home. Insights into the current views of capital-based representatives on the SVE proposal, including specific problems that it may present, and views on the overall NAMA negotiations are sought. Posts are advised that it is acceptable and even recommended to leave the points below with host country as a non-paper. If Posts have questions about this demarche, please contact USTR/Director of Tariff Affairs Cara Morrow via email at: cara morrow@ustr.eop.gov.

Begin talking points:

-- Appreciate your country's ongoing support for the Doha Round negotiations, which have the potential to significantly open markets and increase global trade.

-- Regarding the non-agricultural market access (NAMA) negotiations, we encourage support for an ambitious outcome on the tariff cuts that the advanced developing countries will make. As a trading partner of those countries, your country would benefit from a lower coefficient for them.

-- A special solution for small, vulnerable economies (SVEs) has been put forward by the NAMA Chairman that adopts many of the proposals that the SVEs themselves suggested, such as three bands with different average target bound rates. This distinguishes SVEs from those developing countries - some of which are your neighbors - that have to apply the tariff reduction formula. You not having to apply the formula is an important concession.

-- Use of an average target bound rate (as opposed to the line-by-line tariff reduction requirement in the formula) allows your country to make adjustments to account for product sensitivities. This is a major flexibility afforded to reflect the specific concern that, given their limited administrative and industrial capacity, small, vulnerable economies are not in a position to liberalize as deeply as the larger, advanced developing economies, such as Brazil, Argentina, Chile, etc.

-- Flexibility is also provided by excluding 5 percent of tariff lines from the 10 percent minimum cut in each bound rate line. There is no trade cap on this exemption, so this is more generous than the flexibilities available to the advanced developing countries. We have not heard any product-specific problems with this requirement. Are there specific products that would be a problem?

-- We encourage support your support for working with the Chair's text, including the small, vulnerable economies proposal, as a basis for further negotiations in September. We want to understand details of any concerns you have about the SVE proposal.

-- (If raised: Difficulties in lowering tariffs to the ranges proposed by the Chair): Averages provide you with flexibility to shield sensitivities. As small, vulnerable economies, you also have narrow import and export bases, so there are limited tariff lines where you trade, which gives you further ability to shield sensitive areas with the current flexibilities, as well as tariff lines important for government revenue (such as vehicles).

-- (For Barbados): Barbados' average bound tariff is 76.1 percent and average applied tariff is 12.5 percent. According to our calculations, reaching a target average of 22 percent under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Barbados): In terms of specific products, are fish and jewelry for tourists a problem?

-- (For Belize): Belize's average bound tariff is 51.8 percent and average applied tariff is 9.8 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Bolivia): Bolivia's average bound tariff is 40.0 percent and average applied tariff is 7.9 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Dominican Republic): The Dominican Republic's average bound tariff is 34.1 percent and average applied tariff is 7.9 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Ecuador): Ecuador's average bound tariff is 20.9 percent and average applied tariff is 11.0 percent. Reaching a target average of 14 percent for bound tariffs under the Chair's proposal can be done with minimal changes to your applied tariffs and likely no change to your average applied rate. With the five percent exclusion from line-by-line cuts taken into account, we calculate that only 4 percent of Ecuador's tariff lines would have to sustain applied tariff cuts under this proposal;

-- (For Grenada): Grenada's average bound tariff is 50.0 percent and average applied tariff is 10.2 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can likely be done with no changes to your applied tariffs.

-- (For Guatemala): Guatemala's average bound tariff is 41.0 percent and average applied tariff is 5.3 percent. According to our calculations, reaching a target average of 18 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Guyana): Guyana's average bound tariff is 50.0 percent and average applied tariff is 10.3 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Honduras): Honduras' average bound tariff is 32.4 percent and average applied tariff is 5.2 percent. According to our calculations, reaching a target average of 18 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Jamaica): Jamaica's average bound tariff is 43.3 percent and average applied tariff is 6.6 percent. According to our calculations, reaching a target average of 18 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Nicaragua): Nicaragua's average bound tariff is 41.4 percent and average applied tariff is 4.8 percent. According to our calculations, reaching a target average of 18 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Panama): Panama's average bound tariff is 22.6 percent and average applied tariff is 7.2 percent. Reaching a target average of 14 percent for bound tariffs under the Chair's proposal can be done with minimal changes to your applied tariffs and likely no change to your average applied rate. With the five percent exclusion from line-by-line cuts taken into account, we calculate that only 7 percent of Panama's tariff lines would have to sustain applied tariff cuts under this proposal.

-- (For Paraguay): Paraguay's average bound tariff is 32.3 percent and average applied tariff is 8.7 percent. According to our calculations, reaching a target average of 18 percent

for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Trinidad and Tobago): Trinidad and Tobago's average bound tariff is 50.8 percent and average applied tariff is 7.5 percent. According to our calculations, reaching a target average of 22 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

-- (For Uruguay) Uruguay's average bound tariff is 30.1 percent and average applied tariff is 9.4 percent. According to our calculations, reaching a target average of 18 percent for bound tariffs under the Chair's proposal can be done with no changes to your applied tariffs.

End talking points.

¶6. (U) Please slug responses for USTR Washington (CMorrow), Geneva (LMolnar), USDOC (JJanicke and EDunn), State (AScheibe), and Treasury (WSchall). Post's efforts are appreciated.
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